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UNCLAS SECTION 01 OF 02 DJIBOUTI 000813

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STATE FOR AF AND AF/E
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TAGS: PREL PGOV ETRD ECON DJ ET
SUBJECT: PLOTTING A FUTURE FOR THE ETHIOPIA-DJIBOUTI RAILWAY

¶1. (U) Ahmed Dualeh, Regional and Commercial Director in Djibouti of the Ethiopia-Djibouti Railway, told Ambassador that the decision of Djibouti and Ethiopia to privatize the railway linking their capitals is well underway. Following a tender process to take place next year in 2005, the international private sector is expected to assume full control of the enterprise by 2006. Dualeh anticipates scant participation by local investors in the privatization scheme, citing a lack of capital, yet holds the view that the railway will be attractive to investors because it can be profitable, with adequate rehabilitation. An invitation for participation in the railway concession envisions 51 per cent of ownership of the railway passing to a single concession holder with participation of the Governments of Ethiopia and Djibouti at a minimum. The long-term value of the railway will be in the ability of Djibouti to be attractive as a transshipment point to other African destinations. End summary.

Step One: End the Conflict

¶2. (U) Ahmed Dualeh, Regional and Commercial Director in Djibouti of the Ethiopia-Djibouti Railway, said the U.S., as superpower, must work hard to end the Eritrea-Ethiopia conflict as a first step in supporting privatization and rehabilitation of the Ethiopia-Djibouti railway. Doing so will minimize opportunities for disruption of the railway's services once privatization is achieved. Seeing a link between Ethiopian and Djiboutian economic development and the success of the railway, he is also linking sustained economic development with winning the global effort to confront terrorism. "A hungry man," he said, "is easily influenced by negative forces."

Step Two: Seek Private Investors

¶3. (U) At the inauguration in Djibouti on May 19 of Ethiopia's new multi-million dollar embassy compound, guests were provided a presentation from Swederail consortium inviting private investment in the Ethiopia-Djibouti Railway Company. The consortium pointed out up front the railway's technical and physical constraints and its inadequacies in organization and management. It cited these and a shortage of funds for parts and maintenance as causes of the railway's decline. The result has been, it stated, an excessive number of locomotives and wagons out of commission and under repair, high operational costs, a weak resource base, lack of an improved system, and the inability of the railway to compete with flexible trucking. The short-term challenge of the railway company, according to the consortium's presentation, is to find the necessary funding to catch up with the maintenance backlog of the railway. The EU has approved 40 million euros (USD 48.2 million) to finance rehabilitation of the line, which the consortium hopes will be a selling point for potential shareholders.

¶4. (U) The deadline for submission of pre-qualification proposals for shares of the Ethiopia-Djibouti railway concession was set for May 31,2004. After May 31, pre-qualified parties would be invited to submit their technical proposals for evaluation. Tender documents would be sent no later than June 30 with technical proposals submitted by September 17. After that, parties with satisfactory technical proposals would be invited to submit financial proposals and the final negotiation and signing of a concession agreement with the winner would take place by June 2005. Management of the railroad under the concession agreement would commence September 2005, with the major shareholder given at least 51 per cent of shares. The participation of the Ethiopian and Djiboutian governments would be minimal, according to the consortium's presentation. Issues of personnel and redundancy are among many other issues that will need to be addressed as the process of privatization moves forward.

Step Three: Regain Lost Ground

¶5. (U) France began construction of the Ethiopia-Djibouti

railway in 1897. It is one of the oldest in Africa and the most direct link from the Red Sea to Addis Ababa. It is a meter-gauged single-track line of 781 kilometers of which 681 kilometers are in Ethiopia. According to Dualeh, Dire Dawa is the central station for operation of the line, hosts its maintenance workshops and employs most of the railway's labor force. In 1981, the French share in what ultimately became the Ethiopia-Djibouti Railway Company, was taken over by Djibouti, creating a 50-50 joint commercial venture between Ethiopia and Djibouti. Headquarters are located in Ethiopia and the Djibouti office is organized as a branch of the headquarters office. Management of the railway, however, is divided 50-50 between the two states, with chairmanship rotating yearly between them. Current chair is Ethiopia, with Djibouti's Minister of Transport assuming the honors in 2005. The railway's General Manager is Ethiopian and its Deputy Manager, who also resides in Addis Ababa, is Djiboutian. Director of Finance of the railway, according to Dualeh, is Ethiopian, as well as its Director of Human Resources. Both are based in Addis Ababa. The Technical Director of the railway is Djiboutian and he is based in Djibouti. The railway's Transport and Commercial Directors are also Djiboutian and are based in Djibouti.

¶6. (U) Over the years, Dualeh said, the railway company has been caught up in the political and economic policies of Ethiopia and Djibouti and has declined in influence. One hundred kilometers of track are badly in need of repair. In addition, the 1970s emphasis on the trade route by road from Assab in Eritrea to Addis Ababa exacerbated the railway's decline. Commercial travel by railway to Ethiopia from Djibouti is currently less than 7 percent of total exports from Djibouti to Ethiopia, according to Dualeh. He said the railway is not currently in a position, because of its poor condition -- including rolling stock and tracks -- to compete with the road, yet it could enhance Djibouti's attractiveness as a transshipment point to other African destinations. The railway currently has 14 locomotives, 442 wagons and 27 passenger coaches. Not all are operational at this time. The existing line capacity is about 6 trains per day per direction and carries approximately 800,000 tons of goods per year.

Comment

¶7. (U) Comment: At the same time that Djibouti is supporting privatization of the railway, it is proceeding on other fronts to secure commercial investments that would enable Djibouti to become a vital transshipment point for other parts of Africa. If projects such as an oil pipeline from Djibouti's new port at Doraleh to Dire Dawa or Addis Ababa are completed, or road improvements confirm trucking as the preferred means of transport, the role of the railway could remain marginal. The longer it takes to make the railway a vital alternative to other means of transport, and the longer the region remains unstable, the more difficult will be the railway's path out of marginalization. This point is sure to loom large with potential shareholders. End comment.
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